

## **Asset Description**

**6 Unit Retail/1 Unit Automotive Property  
11634 Pacific Highway SW  
Tacoma, WA 98499**

**Information provided in the Asset Description is from excerpts  
of an evaluation dated August 20, 2002**

## Area Description

The subject is located in Pierce County, which is found in the Puget Sound region of western Washington. The region's economy is more diverse than a decade ago and now generally mirrors the national economy. There are major contributions from the industrial, technology, international trade and government (military) sectors found in Pierce County. The region has experienced above-average job and population growth over the past decade, and initial economic forecasts for 2001 anticipated sustained economic growth that would place it in the top 10% of the fastest growing areas in the US. However, spikes in energy costs, the collapse of many dot.com companies, recessions in most Pacific Rim countries (particularly Japan), and the impact of the 9-11 terrorist attacks on the travel and aerospace industries have resulted in a regional recession that is worse than the nation as a whole.

The state unemployment rate has risen to its highest levels since 1992, and further cutbacks have been announced by Boeing, reaching as many as 20,000 jobs lost by mid-2002. 1<sup>st</sup> quarter 2002 Washington State unemployment was 7%. Current forecasts predict a regional decline in employment of 2% in 2002, despite a gradual recovery in the state's GDP. Employment is now not expected to recover to the peak level reached in the first quarter of 2001 until the first quarter of 2004.

Helped by increased federal spending, low interest rates, and falling energy prices, the consensus forecast for the national economy is recovery from recession in early 2002, with growth up to 4% by the end of the year. Regionally, recovery may be delayed by as much as three quarters due to the Boeing layoffs and extensive losses in the technology sector. Positive growth is anticipated in the fourth quarter of 2002.

Tacoma had been stigmatized in the 1970s because of pollution generated from Arasco and in the Tideflats. Air quality coupled with a retail exodus from the CBD to the suburban malls kept growth limited to various suburban neighborhoods. Rents remained fairly stable in some sectors, with few surprises. With the development of UW Tacoma and the Washington State History Museum in the early 1990s, Tacoma CBD began a turnaround. Tacoma is now in a classic revitalization phase attracting national retailers to Tacoma-Pierce County. Infusing future progress is City of Tacoma's Click high-speed network and new construction projects underway in Tacoma. Dotting the landscape will include a convention center on Commerce, Hollander's proposed limited service hotel on Pacific Avenue, Museum of Glass (\$41 million), Tacoma Art Museum (\$25.4 million), UW Tacoma Technology Center (\$16.3 million), Pioneer Museum of Motorcycles & Conference Center (\$10 million) and various large scale retail/residential projects such as Thea's Landing. Threatening to siphon demand for Tacoma's CBD revitalization is Cosmos' plan to construct a million square feet of office and hotel (\$120 million) in the Tacoma Dome area. Cosmos plan is on hold as Tacoma's City Council weighs to replace it with LeMay's proposed 500,000 square foot museum to display his 3,000+ automobile collection. Local economists predict the long term prospects for Tacoma-Pierce County are favorable, however this may be tempered with occasional setbacks over the short term.

Population is approaching 713,400 in 2001 with average annual wage per job at \$30,100, as of 2000. The early 1970s was negatively impacted by a severe recession stemming from an economy dependent on Boeing which suffered loss of over half of its workforce.

	<u>1970-1979</u>	<u>1980-1989</u>	<u>1990-1999</u>
Annual Population Growth	1.8%	2.1%	2.0%
Annual Income Growth	10.1%	3.9%	4.8%

Income growth is expected to remain strong as Tacoma-Pierce County aggressively attracts a higher educated population base, coupled with UW Tacoma's presence, and sheds its historical blue-collar workforce image. Most of the new population growth is following a southwest pattern into Puyallup/Spanaway/Fredrickson neighborhoods along State Route 512, as this area has land available at affordable prices for new home construction.

### *Commercial & Industrial Real Estate Sectors*

#### **Office Market**

Tacoma, Seattle, Bellevue and Renton metropolitan CBD office markets are currently experiencing rising vacancy and declining lease rates. According to the Insignia-Kidder Mathews Office Vacancy Report, office vacancy rate for the Pierce County dipped to 14.66% at the end of 2001. According to CB Richard Ellis, the highest vacancy rate reported was in Kent at 28%. In downtown Bellevue approximately 45% of the available inventory is sub-leased space. Brokers indicate Bellevue's overall office vacancy could exceed 30%, as a result of new buildings under construction. In Pierce County, suburban office space continues to fare better than in Tacoma's CBD.

<b>4<sup>th</sup> Quarter 2001</b>	<b>Pierce County</b>	<b>South King</b>	<b><u>East</u> King</b>	<b>Seattle CBA</b>
Overall Vacancy	14.6%	10.9%	16.2%	12.4%
Class A Rents - Full Service	\$19-\$22	\$19-\$22	\$19-\$24	\$28-\$34

Survey of Class A Office Buildings. Full Service lease requires owner to bear operating costs.

## Industrial Market

The industrial sector also has softened, as first dot-com users vacated or scaled back their warehouse requirements as well as their office space, and then the Boeing layoffs added to their impact. The latter event has a wide-reaching ripple effect in the region, as the many suppliers that support the aerospace industry cut back. The marketplace continues to absorb the backlog of new construction, but at a drastically slower pace. According to the CB Richard Ellis 1<sup>st</sup> Quarter 2002 Industrial Vacancy Report, industrial vacancy rate for the south end was 10.57%. 'The vacancy rate is the highest the market has experienced in years, and reflects the national and local economic downturn, as well as a reaction to 3 years of unprecedented construction and absorption', said Ed Hogan, an industrial broker for CB Richard Ellis. Also significant is the recent announcement by the Boeing Company that it is going to cut nearly 30% of its occupied space in Renton by early 2003, *this supply is not included in current vacancy estimates*. Boeing is divesting nearly 2,000,000 SF in Auburn and Kent. Currently, 75 of 2,000 (3.75%) office and industrial buildings are completely vacant in the Puget Sound area. In Tacoma/Fife, average asking lease rates dipped to \$0.31 reported by CB Richard Ellis. Landlords are offering aggressive and creative terms to attract tenants. Stagnating Tacoma's recovery is the vast amount of industrial space available in the Kent Valley (8% vacancy with 32¢ to 35¢ asking rents) and Eastside (9.9% vacancy with 45¢ to 60¢ asking rents). Clearly, market conditions favor the buyer or renter, whom have many options available. Brokers did report favorable absorption for first quarter 2002 in Tacoma, however, this appears to be skewed by Milgard leasing 90,000 SF in a one time expansion deal. Unemployment remains high (7%) and the stock market has not recovered which limits cash available for expansion in the institutional sector. A silver lining may lie in the Western Washington Purchasing Management Index which was above 55 in March, (an index above 50 indicates a growing economy). However, most brokerage firms are forecasting declining rent rates due to the abundance of space available in the entire Puget Sound region.

Tacoma-Fife Existing SF	Overall Vacancy	Under Construction	Absorption	Asking Rents Q1 2002	Asking Rents CBA May 2002
33,131,296 SF	9.7%-11.1%	389,443 SF	-232,418 in 2001	32¢ - 38¢ shell	29¢ - 32¢ shell
			+18,999 Q1 2002	97¢ - \$1.02 office	97¢ - \$1.02 office

SOURCE: CPSRE, CB Richard Ellis, Insignia Kidder Mathews, Colliers, Grubb & Ellis for Tacoma-Fife industrial market.

As of 4<sup>th</sup> quarter 2001, Dave Sheean of Kidder, Mathews & Segner estimates between existing space and proposed construction, there is a 2.5 year supply of industrial space available in Pierce County, with most of the inventory consisting of large distribution-type institutional warehouses developed during the boom of the past few years.

The vacancy rate for smaller spaces is reportedly lower due to much less new inventory being built and higher level of demand. Gary Foreman, Pierce County Chief Assessor, remarked that all of the industrial land in the Kent Valley has been purchased for development, which is pushing demand south into Pierce County. Growth typically follows along the I-5 or SR 167 corridor. Because of traffic congestion in Seattle and a greater presence of wetlands north of Seattle, Pierce County is becoming an attractive alternative.

## Retail Market

The retail sector has been the shining star, with lowest vacancies and rising lease rates fueled by sales growth of 6.2% in 2000. However, retail shop owners report sales volumes were down 5% to 10% from the previous year prior to September 11<sup>th</sup>, 2001. Taxable retail sales in King County fell 6% in the 2<sup>nd</sup> quarter, the largest quarterly decline in 25 years. Preliminary sales numbers from the holiday shopping period show an increase of approximately 1% over 2000 for the states retailers, due mostly to early promotional Christmas discounting. On-line sales performed particularly well in the 4<sup>th</sup> quarter, as the reduction in the number of e-retailers allowed for some pricing integrity. Overall, retail sales in the Puget Sound region are predicted to increase by only 1% during 2001 and 1.7% in 2002. In Pierce County, retail strength continues to benefit from national retailers coming into the marketplace. Some overbuilt areas in Redmond are offering first year rent concession at \$8 to \$9 per square foot.

4 <sup>th</sup> Quarter 2001	Pierce County	South King	East King	Seattle CBA
Average Household Income	\$60,347	\$82,435	\$119,624	\$72,715
New Construction Base Rents	*\$16-\$24 NNN	*\$16-\$24 NNN	*\$21-\$30 NNN	\$50-\$100 NNN

\*Buildings constructed between 1995 to 2002 surveyed. Triple net rents (NNN) require tenant to pay base rent plus operating costs.

## Apartment Market

There are wide swings in vacancies, unit prices and capitalization rates depending on the submarket in each county and product size. Historically Pierce County's economy trailed King County and was less diversified. As Seattle became built up supply of land for new development was constricted and home prices hit an average of \$350,000. This has pushed new developments, particularly industrial, into South King County which created jobs within commuting distance of Pierce County. King County's growth is impeded because of traffic congestion, and crossing waterways limits new freeway construction as costly. Although the economy has slowed, which is limiting new construction plans in Pierce County, apartment rents are still projected to increase by 3% to 4%. Low interest rates continue to attract investors to buy apartments, although capitalization rates have nudged upwards to reflect risk of higher vacancies.

4 <sup>th</sup> Quarter 2001	Pierce County	King County
*Unit Prices 2001	\$25,925-\$58,333	\$38,461-\$161,666
Vacancy Rate 2001	4.6%	5.4%
Vacancy Rate 2002 projected	5.7%	7.7%

\*Apartment buildings with 20 to 300 units surveyed

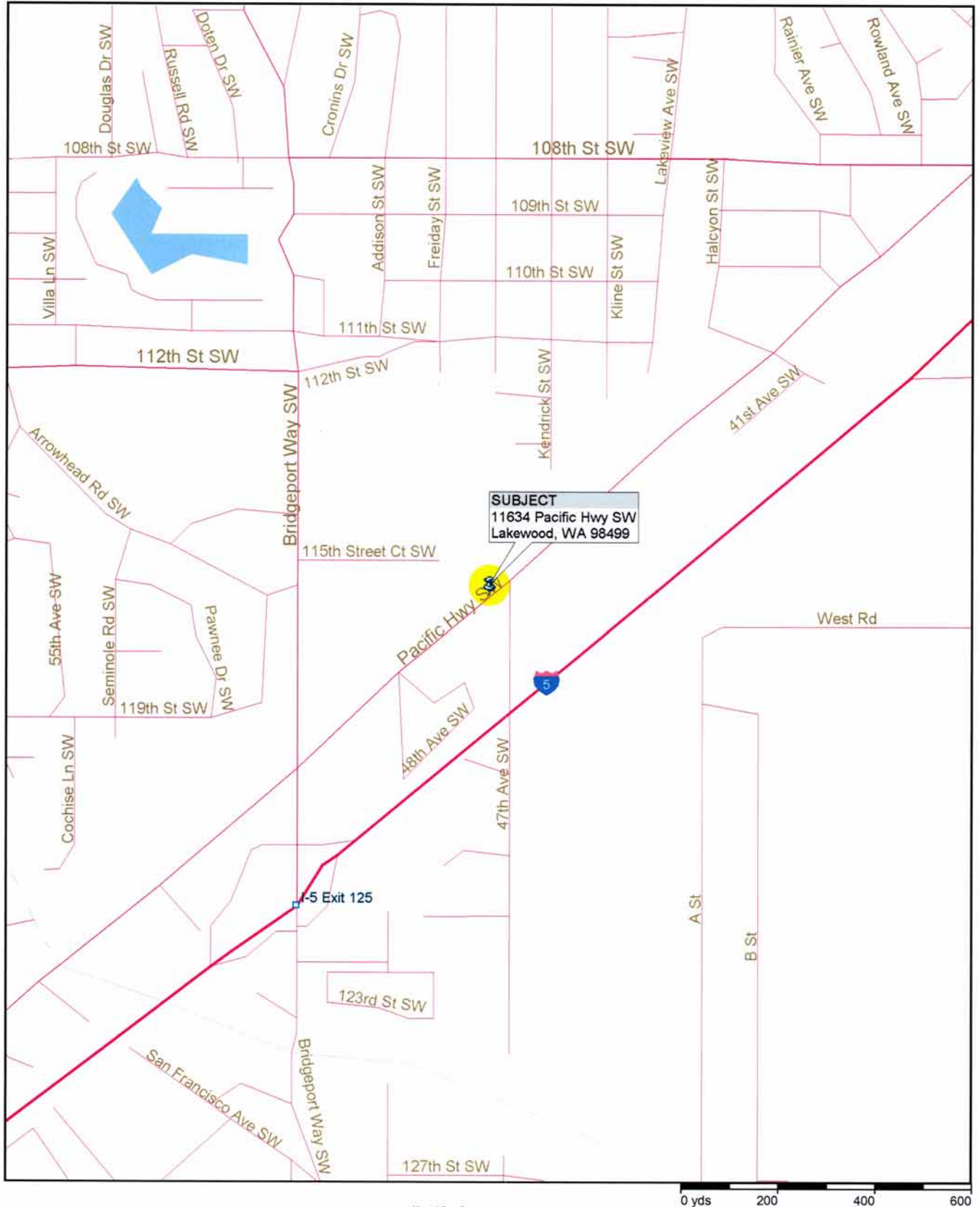
## Conclusion

Despite the recession, many sectors within the local real estate market continue to be attractive to investors and owner/occupant buyers. Smaller properties are still sought out by owners. Many investors have cash available, but no product is on the market – particularly neighborhood strip retail. Transaction levels are being fueled by low interest rates and from investors retreating from the stock market. As vacancy rates rise and rent rates level off, “bargains” may become available for those buyers with available capital, particularly in sectors such as industrial and office. New construction in such a market is frequently limited to relatively small build-to-suit projects, rather than large speculative properties that may have prolonged absorption periods. Initial reports indicate that the national economy grew at a 5.6% annual rate in the first quarter of 2002 and manufacturing output has been increasing. However, local economists predict that the Puget Sound economy will recover at a slower rate because of Boeing and numerous failed dot com companies.

Specifically, the subject property is located in the City of Lakewood, specifically near the Ponders neighborhood. Elements attracting tenants to the subject property is influenced by the subject property’s proximity to the I-5 entrance/ exit ramp. The subject is located in a neighborhood that is characterized as being in the revitalization stage. The target clients for investors and tenants are the local Korean investors and business owners who wish to purchase properties along the South Tacoma Way corridor, but there is currently very little supply along this corridor. Therefore, investors and tenants have settled along the Pacific Highway South corridor.

The subject property is a small strip retail complex. As such, it has a broader appeal to local investors and this market segment is less effected by the pendulum price swings found in the overall market.

## NEIGHBORHOOD MAP



Streets98

## Description of Site

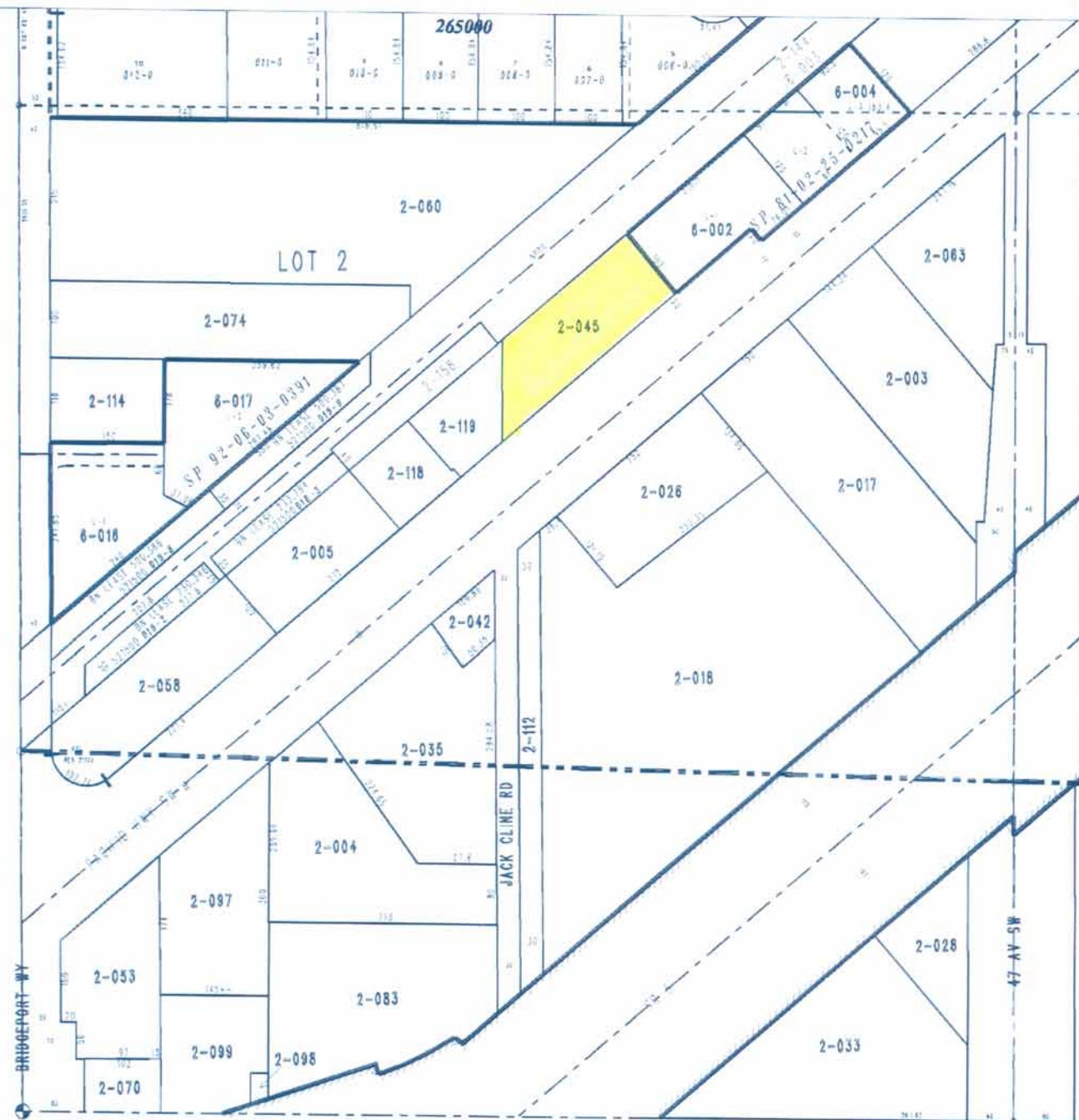
Land size was estimated by reviewing the plat map and county records, and is subject to an engineering survey.

<i>Size</i>	±30,928 SF
<i>Shape</i>	Rhomboid-shaped parcel
<i>Zoning</i>	TOC, Transit Oriented Commercial, City of Lakewood, as of 9/1/2001.
<i>Access</i>	Pacific Highway SW
<i>Frontage</i>	Parcel has good frontage on Pacific Highway SW, a primary arterial.
<i>Topography</i>	Level
<i>Visibility</i>	Located on a primary arterial. Traffic exposure and visibility are rated above average.
<i>Easements</i>	Assumed to be free of easements which would preclude site development.
<i>Utilities</i>	Typically utilities are available to site, including gas and sewer.
<i>Soils</i>	Assumed to be adequate to support development and an assumption of this appraisal is that there are no environmental concerns impacting the utility of the site.
<i>Flood Zone</i>	Not in a designated flood zone.
<i>Comments</i>	Site size, shape and location have good market appeal for commercial development. Location identity is average, as the subject site is less than ½ mile from the I-5 on-off ramp. Freeway access is excellent. Average quality, average-maintained building has average plus functional utility for strip retail use.

### *Properties Abutting Subject*

<i>North</i>	Burlington Northern Railroad
<i>South</i>	Pacific Hwy SW
<i>West</i>	Furniture store
<i>East</i>	Strip Retail Mall





**Plat Map**

## Description of Improvements

Building size was estimated by reviewing county records and from lease summary.

Specifications	
Net Rentable Area (NRA)	±9,700 SF
Land Size	30,928 SF
Land to Building Ratio	3.19: 1
Parking	30
Tenants	4
Occupancy	91%

*Year Built:*

1951 per county records.  
Effective age ±25 years due to remodeling and upkeep  
Economic Life is 45 years, remaining life is ±20 years.

*Building Characteristics*

One-story, wood-frame retail building occupied by 4 users. One-story, steel-framed garage occupied by a tenant who operates an auto repair business.

*Design*

Retail building is average quality, concrete block building with wood-frame interior partitioning and painted & textured sheetrock walls. Floor finish is combination of carpet and vinyl. Building has good exposure to traffic. Ceiling is acoustical tile with embedded fluorescent light fixtures. Flat, built-up roof.

Garage building is one-story steel-framed with minimal finish on the inside.

*Quality*

Average quality improvements in average condition.

*Americans with Disabilities Act (ADA):*

This facility was constructed prior to the ADA's enactment in 1992. We have not reviewed an ADA survey to determine if the building is fully compliant with ADA's requirements.

*Comments*

Design exhibits good functional utility as a strip retail building. Parking is average.

## Sales Approach

The sales selected vary in comparison to the subject. The subject property consists of one six-unit 7,200 SF concrete block building, of which 6,300 SF is currently occupied by three tenants. The 2,500 SF metal building is occupied by an auto repair tenant, and this entire 2,500-SF building is occupied by one tenant. Approximately 900 SF or 9% is vacant. Constructed in 1951 with an effective age of 1980, the subject property is of average quality and in average condition. The subject complex is located on a primary arterial, approximately ½ mile from the Ponders Corner neighborhood in Lakewood. Because of its high crime rate, the Ponders Corner neighborhood has been a target of a “Weed and Seed” program. The City of Lakewood has received a grant from the United States Department of Justice to weed the neighborhood of crime.

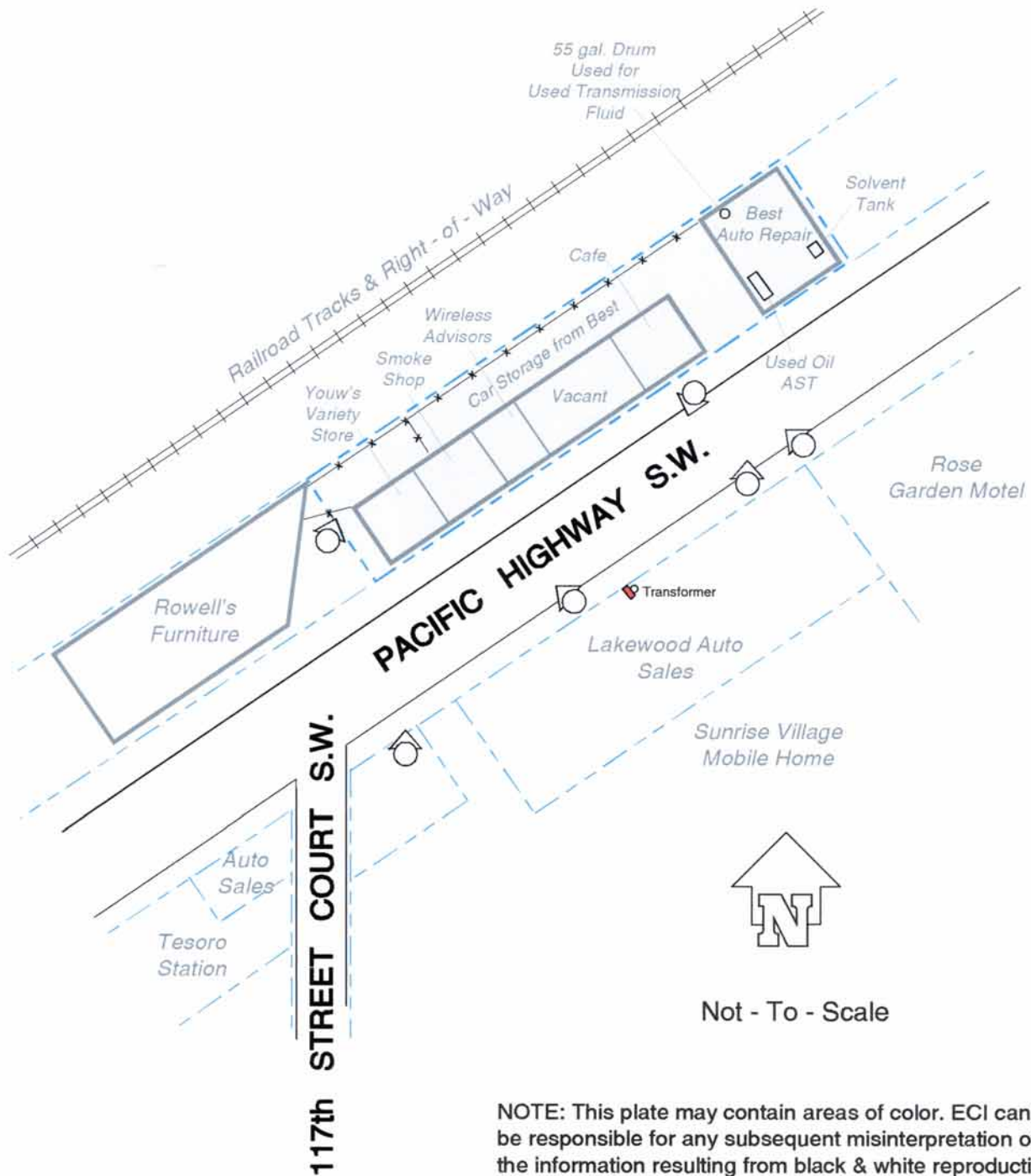
Sale	Sale Date	Sale Price	Rentable Area	Bldg Age	Land-to Bldg	Price per SF
(1) Sim Retail 7609 Steilacoom Blvd SW, Lakewood, WA	I.2600 5/31/2002	\$1,200,000	9,980 SF	1986	5.38: 1	\$120.24
(2) Bridgeport Villa, 10604 to 10652 Bridgeport Way SW, Lakewood, WA	I.2377 5/01/2002	\$950,000	15,616 SF	1990 eff	2.77: 1	\$60.83
(3) Pak Retail 11620 Pacific Hwy SW, Lakewood, WA	I.2514 3/12/2002	\$460,000	6,655 SF	1975 eff	3.53: 1	\$69.12
(4) Evergreen Consulting 9702 S. Tacoma Way, Lakewood, WA	I.2019 4/28/2000	\$535,000	8,305 SF	1980 eff	3.84: 1	\$64.42
<i>Subject</i>			<i>9,700 SF</i>	<i>1980 eff</i>	<i>3.19: 1</i>	

All of the sales were not fully occupied at the time they sold. Sales #1, #2, and #3 were purchased by investors. Sale #4 was purchased by an investor/owner-occupant, who had planned to occupy a portion of the net rentable area.



# Streets98





### LEGEND

-  Photo Number and  
Direction of View
-  Subject Site
-  Existing Building

NOTE: This plate may contain areas of color. ECI cannot be responsible for any subsequent misinterpretation of the information resulting from black & white reproductions of this plate.



Site Plan  
Pacific Highway Strip Mall  
Tacoma, Washington

Drwn. GLS	Date Mar. 2003	Proj. No. 10317
Checked RH	Date 3/5/03	Plate 2

## Income Approach

Rental	Bldg Size (NRA)	Unit Sizes	Bldg Age	Occu-pancy	Lease Format	NNN Lease Rate (\$/SF/YR)
R.757 #1- Pak Retail 11620 Pacific Hwy SW, Lakewood, WA	6,655 SF*	360 SF – 1,680 SF	1975 eff.	100%	NNN	\$8.31 - \$13.33 avg \$8.93 for retail units
R.84 #2- Chang Retail 11916 Pacific Hwy SW, Lakewood, WA	5,584 SF	504 SF – 1,670 SF	1990's	100%	NNN	\$11.03 - \$16.32 avg \$12.06
R.415 #3- Bethel Realty Building 11002 Pacific Hwy SW Lakewood, WA	2,300 SF	750 SF – 1,550 SF	1980 eff	35%	NNN	\$9.68
R.850 #4- Bridgeport Villa 10604 – 10652 Bridgeport Way W. Lakewood, WA	18,175 SF	400 SF – 3,582 SF	1985 eff	100%	Mixture of MG and NNN	\$4.26 - \$12.00 NNN equivalent for all units
Subject Property	9,700 SF	750 SF – 3,000 SF	1980's eff.	91%	NNN & MG	\$8.60 - \$12.00 NNN equivalent for all units

\*Net rentable area for retail units is 5,910 SF. A 745-SF garage is leased to a tenant, who uses this space for storage.

As a group, these rentals are reliable indicators for a market rent range.

Chang Retail has the highest rents, because of its location and newer condition. Chang Retail sits on a large corner lot with visibility from a 4-stoplight corner, and visibility from the on-ramp from I-5.

The subject has 7,500 SF of retail space and a 2,500-SF free standing auto repair garage.

The subject's lease format is a mixture of NNN and Modified Gross. Sim Ya and Best Japanese Auto Repairs is on a Modified Gross lease with the tenant paying for base rent, interior maintenance, utilities, and janitorial.

Unit #D is vacant and an estimated market rent rate will be applied to this unit. An estimated \$10.00/ SF NNN is applied to this 900-SF unit. This amounts to \$750 per month for the unit.

The average rent rate for the subject's retail units is \$10.11/SF NNN (\$72,827 ÷ 7,200 SF).

Base on the market information and after adjusting the subject's retail rent rates to a NNN basis, it appears the subject's rent rate may be in the upper end of the rent range.

### Subject's Income & Expense

The subject's modified gross rent rates are adjusted to NNN rent rates, and a \$10.00/SF NNN rent is applied to the 900-SF vacant unit. Based on market data, a 5% vacancy rate and a 7% total expense rate are applied to the subject property.

<b>Subject Lease Summary</b>				
Tenant	NRA	Lease Rate	NNN Equivalent Rent/ Month	Lease Terms
Youn's Variety (Units A & B)	3,000 SF	\$10.00 NNN	\$2,500	4/01/02 – 3/31/07
Wireless Advisors (Unit C)	1,000 SF	\$12.00 NNN	\$1,000	4/01/02 – 3/31/03
Simya (Units E & F)	2,300 SF	\$10.43 SF Mod. Gross	\$1,818.92	1/01/02 – 1/31/07 \$2,000 monthly rent or \$10.43 SF adjustments -\$ .74 for taxes and -\$ .20 for building insurance for a NNN <b>adjusted rate of \$9.49/SF</b>
Vacant Unit D	900 SF	-0-	\$750	Vacant, \$10 NNN estimated
Best Japanese Auto Repair	2,500 SF	\$9.60 SF Mod. Gross	\$1,804.17	6/01/01 – 5/31/04 \$2,000 monthly rent or \$9.60 SF adjustments -\$ .74 for taxes and -\$ .20 for building insurance for a NNN <b>adjusted rate of \$8.66/SF</b>
<b>Totals</b>	<b>9,700 SF</b>		<b>\$7,873</b>	

### *Vacancy, Expense & Capitalization Rates*

A proforma income statement developed for the subject will be based on market rents and expense information garnered from comparable properties.

<i>Property</i>	<i>Vacancy</i>	<i>Expense</i>	<i>Cap Rate</i>
(1) 7609 Steilacoom Blvd SW	Unk	Unk	Unk
(2) 10604 – 10652 Bridgeport Villa	8.6%	7%	12.9%
(3) 11620 Pacific Hwy SW	5%	5%	10.83%
(4) 9702 S. Tacoma Way	5%	5%	12.47%

Market vacancy is typically 5% in the neighborhood, which is estimated for the subject. Expenses are reconciled to 7% for management, structural reserves, and miscellaneous. The current property management fee is \$6,000 per year, which is approximately 6.7% of the effective gross income. Most of the properties surveyed are a combination of modified gross and triple net.

Sale #3 had an original offer based on a 10.6% cap rate. But was later sold at a 10.83% cap rate, after the first buyer walked away from the deal.

The subject property has one vacant space (Unit #D) and the Wireless Advisor's lease will end in March 2003.

Sale #3 had a decline in lease rates from 1999 – 2001. The seller stated that she lowered the lease rates to maintain a 100% occupancy in order to sell the property.

<b>Subject Annual Income &amp; Expenses Proforma</b>			
<b>Income:</b>			
Potential Gross Income (\$7,873.09 x 12)	\$94,477		Avg \$9.74/SF NNN
Youn's Variety		\$2,500/ month	
Wireless Advisors		\$1,000/ month	
Simya		\$1,818.92/ month	
Best Japanese		\$1,804.17/ month	
Suite D		\$750.00/month	
Less Vacancy (5%):	<u>-\$4,724</u>		
Effective Gross Income (EGI):	\$89,753		
<b>Expenses:</b>			
Management & Reserves (7% EGI)	<u>\$6,283</u>		
<b>Net Operating Income (NOI):</b>	<b>\$83,470</b>		

Sale #2 sold with an average rent rate of \$8.90/ SF NNN and 12.9% cap rate.

Sale #3 sold with an average rent rate of \$8.93/ SF NNN with a 10.83% cap rate.

Sale #4 sold with an average rent rate of \$12.00/ SF NNN with a 12.47% cap rate.

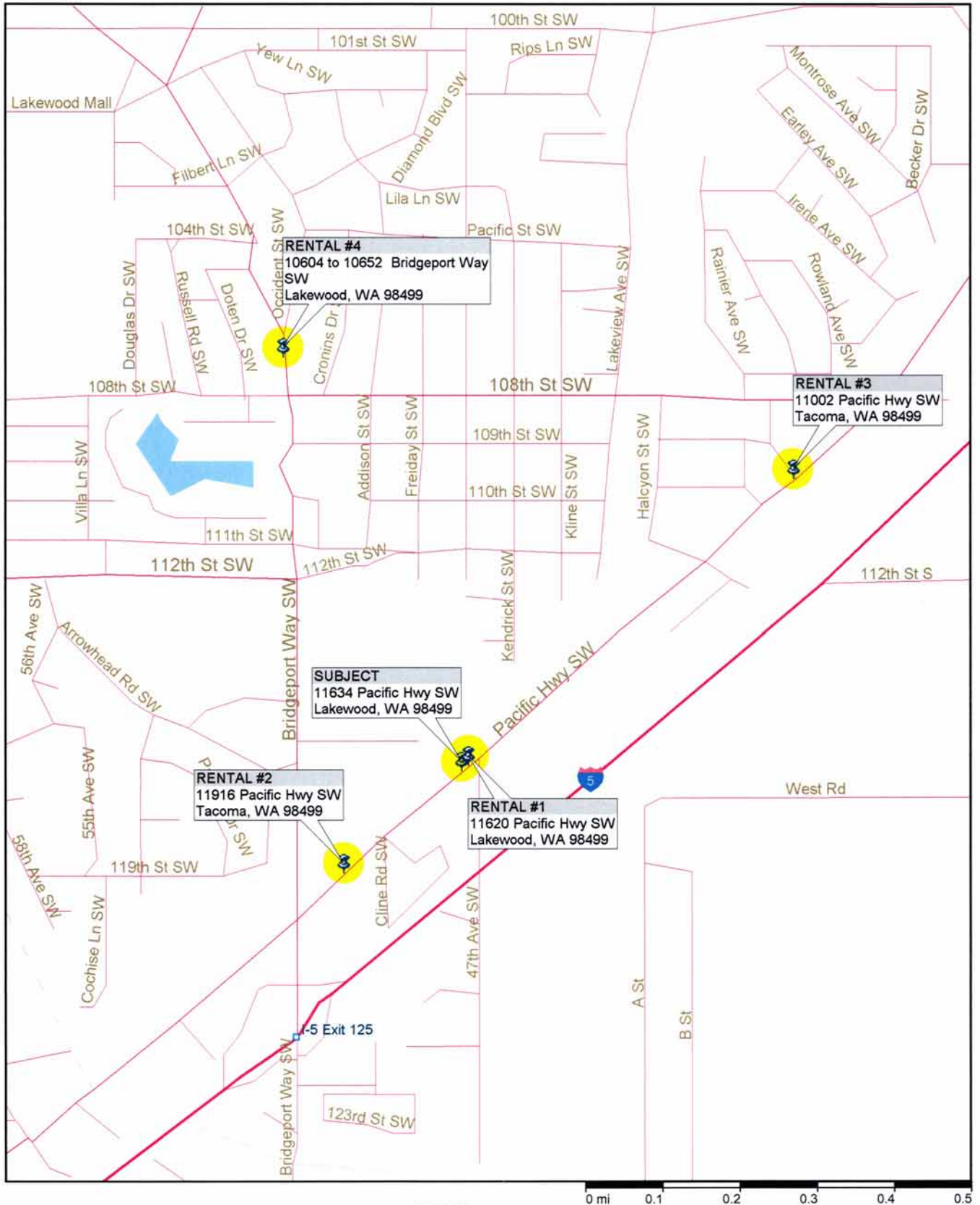
No rent information was available for Sale #1.

The subject property's average rent rate for the retail units is \$10.11/ SF NNN, which appears to be on the upper end of the rent range, based on its quality, condition, and location.

Based on market information, our conclusion is that the subject's rent rates are in the upper end of the market rent range. Based on recent sales in the subject's market and the current rent rates, a 12% cap rate is deemed reasonable considering a stabilized 5% vacancy rate is estimated.



## MAP OF RENTALS



# Streets98

COM W 1/4 COR OF SEC TH N 00 DEG 01 MIN 15 SEC E 309.75 FT TO  
ORIGINAL NLY BDRY LI OF 100 FT R/W OF PACIFIC HWY TH N 49 DEG 40 MIN  
00 SEC E ALG SD HWY BDRY LI 776 FT TH N 40 DEG 20 MIN 00 SEC W 120 FT  
TO SLY BDRY LI OF R/W NPRR TH N 49 DEG 40 MIN 00 SEC E ALG SD RY R/W  
165 FT TO POB TH CONT N 49 DEG 40 MIN 00 SEC E ALG SD RY R/W 218 FT  
M/L TO A PT S 49 DEG 40 MIN 00 SEC AS MEAS ALG S LI OF SD RR R/W  
263.4 FT FROM INTER WITH N LI LOT 2 TH AT R/A TO SD RR R/W SELY 100  
FT M/L TO N LI PACIFIC HWY AS IT NOW EXISTS TH SWLY ALG N LI SD SD  
PACIFIC HWY TO PT S 00 DEG 51 MIN 09 SEC W OF POB TH N 00 DEG 51 MIN  
09 SEC E TO POB EXC ANY POR THEREOF LY WITHIN BDRY LI OF PACIFIC HWY  
OR DEEDED TO STATE OF WASH BY AUD FEE # 1302388 & 1302008